

KAMAS CITY
FINANCIAL STATEMENTS AND
SUPPLEMENTARY DATA

JUNE 30, 2005

KAMAS CITY
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
Kamas City
Kamas, UT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Kamas City, Utah as of and for the year ended June 30, 2005, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated September 20, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 and budgetary comparison information on pages 35 through 38 are not a required part of the financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Davis, Chase & Associates

September 20, 2005

KAMAS CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDING JUNE 30, 2005

INTRODUCTION

The following is a discussion and analysis of Kamas City's financial performance and activities for the fiscal year ending June 30, 2005.

HIGHLIGHTS

The most significant thing that occurred in the City was the annexation into the city boundaries of three (3) different areas. All of these areas were annexed into the City as commercial or industrial zones. The City believes that each of these annexations will bring additional tax base to the City and make available local employment to residents of the City.

The City continued to upgrade city roads by the use of Class B & C Road money from the State, General Fund money, and participation from the school district on a road project greatly impacted by school traffic.

The City transferred from the General Fund another \$30,000 into the Capital Projects Fund toward the purchase or construction of a new Public Works building.

The City transferred all of the accounts from the 24th of July Fiesta celebration into the General Fund Account to consolidate the accounting function.

The City is involved in an ongoing and aggressive grant and loan application strategy to improve the aging water system, to extend water lines into the annexation areas, and to promote additional water sources. A significant CDBG grant and a Water Resources loan have been acquired that will be used during the coming 2005-2006 budget year for some of these projects.

The assets of Kamas City exceeded its liabilities at the end of the current fiscal year by \$4,809,895 (net assets). Of this amount, \$721,041 (unrestricted net assets) is available to meet ongoing obligations to citizens and creditors.

Net assets increased by \$128,766. Of this amount, 82 percent is a result of business-type activities.

The City's Governmental funds reported combined ending fund balance of \$177,634, an increase of \$58,510 compared to the prior years' ending amount. Of the combined total fund balance, \$30,003 is available for spending at the discretion of the City (unreserved and undesignated fund balance).

The unreserved and undesignated fund balance of the General Fund at June 30, 2005, totaling \$30,003, is 4 percent of the General Fund total revenues for the year and 100 percent of governmental unreserved and undesignated fund balance. The General Fund, also has approximately \$57,631 of fund balance reserved for specific purposes that will be carried over into the following fiscal year.

During the year, total bonded debt for Kamas City decreased by approximately \$81,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the City's Basic Financial Statements. The Basic Financial Statements includes three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The government-wide financial statements are comprised of the Statement of Net Assets, and the Statement of Activities. These two statements provide a broad overview of the City's finances. The Statement of Net Assets shows the overall net assets of the City. Increases and decreases in net assets are one indicator of the City's overall financial condition. The Statement of Activities helps to identify functions of the City that are principally supported by taxes and other general revenues (governmental activities) along with other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Kamas's business type activities are sewer and water.

The fund financial statements provide detailed information about individual major funds and not the City as a whole. A fund is a group of related accounts that the City uses to keep track of specific resources that are segregated for a specific purpose. Some funds are required by law to exist, while others are established internally to maintain control over a particular activity. All of the City's funds are divided into two types. The two types are Governmental Funds and Proprietary Funds.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Kamas City has two Governmental Funds. The General Fund is the chief operating fund of the City. All of the City's activities are reported in the General Fund unless there is a compelling reason to report an activity in some other fund type. The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Kamas City has two Proprietary Funds. The Enterprise Funds may be used to report any activity for which a fee is charged to external users for goods or services. The Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Kamas City has one Enterprise Fund to monitor the sewer system and one to monitor the water system.

There are several differences between Government-Wide and Fund Statements. Capital assets and long-term debt are included on the government-wide statements, but are not reported on the governmental fund statements. Capital outlays result in capital assets on the government-wide statements, but are expenditures on the governmental fund statements.

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

	Government Activities		Business-type Activities		Total	
	June 30 2005	June 30 2004	June 30 2005	June 30 2004	June 30 2005	June 30 2004
Current and other assets	\$ 362,355	\$ 342,031	\$1,161,193	\$1,112,038	\$1,523,548	\$1,454,069
Capital assets	591,908	599,816	4,430,080	4,468,378	5,021,988	5,068,194
Total assets	954,263	941,847	5,591,273	5,580,416	6,545,536	6,522,263
Long-term liabilities outstanding	184,154	156,594	1,346,766	1,437,520	1,530,920	1,594,114
Other liabilities	184,721	222,907	20,000	24,113	204,721	247,020
Total liabilities	368,875	379,501	1,366,766	1,461,633	1,735,641	1,841,134
Net assets:						
Invested in capital assets, net of related debt	438,294	443,222	3,083,314	3,030,858	3,521,608	3,474,080
Restricted	147,631	117,399	419,615	438,909	567,246	556,308
Unrestricted	(537)	1,725	721,578	649,016	721,041	650,741
Total net assets	\$ 585,388	\$ 562,346	\$4,224,507	\$4,118,783	\$4,809,895	\$4,681,129

The largest component of the City's net assets, 73.2%, reflects investments in capital assets (land, buildings, equipment, and sewer infrastructure) less all outstanding debt that was issued to buy or build those assets. As capital assets, these resources are not available for future spending, nor can they all be readily liquidated to pay off the related liabilities.

Restricted net assets comprise 11.8% of total net assets and are subject to external restrictions on how they may be used. The remaining 15.0% of net assets is unrestricted and may be used at the City's discretion to meet its ongoing obligations to citizens and creditors.

Management's Discussion and Analysis

Governmental Activities and Business Type Activities

Changes in Net Assets

	Government Activities		Business-type Activities		Total	
	June 30 2005	June 30 2004	June 30 2005	June 30 2004	June 30 2005	June 30 2004
Revenues:						
Program revenues:						
Charges for services	\$ 113,287	\$ 107,110	\$ 436,568	\$ 503,401	\$ 549,855	\$ 610,511
Operating grants and contributions	99,849	67,160	-	275,000	99,849	342,160
Capital grants and contributions	2,064	61,538	23,875	-	25,939	61,538
General revenues:						
Property taxes	116,107	125,912	-	-	116,107	125,912
Other taxes	325,947	317,990	-	-	325,947	317,990
Grants and contributions not restricted to specific programs						
Other	61,462	55,058	-	-	61,462	55,058
Total revenues	718,716	734,768	460,443	778,401	1,179,159	1,513,169
Expenses:						
General government	284,271	280,772	-	-	284,271	280,772
Public safety	158,373	156,750	-	-	158,373	156,750
Highways and public improvements	147,106	176,742	-	-	147,106	176,742
Parks and recreation	62,536	55,138	-	-	62,536	55,138
Public works	17,954	18,801	-	-	17,954	18,801
Interest on long-term debt	5,434	7,520	-	-	5,434	7,520
Water	-	-	212,373	200,901	212,373	200,901
Sewer	-	-	162,346	149,473	162,346	149,473
Total expenses	675,674	695,723	374,719	350,374	1,050,393	1,046,097
Increase in net assets before transfers	43,042	39,045	85,724	428,027	128,766	467,072
Transfers	(20,000)	-	20,000	-	-	-
Increase in net assets	23,042	39,045	105,724	428,027	128,766	467,072
Net assets-beginning	562,346	523,301	4,118,783	3,690,756	4,681,129	4,214,057
Net assets-ending	<u>\$ 585,388</u>	<u>\$ 562,346</u>	<u>\$4,224,507</u>	<u>\$4,118,783</u>	<u>\$4,809,895</u>	<u>\$4,681,129</u>

Governmental Activities

The activities in the governmental funds resulted in an increase in net assets of \$23,042 for the year.

Business-Type Activities

The business-type activities increased net assets by \$105,724. The sewer and water enterprise funds are generating sufficient revenue to cover operating costs.

Management's Discussion and Analysis

Capital Assets

Kamas City added \$41,704 in new capital assets in governmental activities during the fiscal year. The following assets were acquired or constructed: Police truck - \$26,941; Partial interest in a backhoe upgrade - \$2,320, and \$12,443 in pavilion improvements and playground equipment.

Fund Balances

The fund balance in the General Fund was decreased by \$28,510. \$30,000 was transferred to the Capital Projects Fund for a new public works building. The Net Assets in the Enterprise Funds increased by \$105,724.

During the fiscal year, the fund balance in the Capital Projects Fund increased \$30,000.

Long-Term Debt

The City currently owes \$1,469,000 for Revenue Bonds and \$31,380 for lease purchase agreements. The City owes \$30,540 in compensated absences. The proceeds from the bonds were used to finance the City's water and sewer infrastructure and to build the City Hall. \$103,912 of the debt will be paid in the current year with \$1,427,008 remaining in Long-Term debt.

General Fund Budgets

Kamas City prepares its budget according to state statutes. The General Fund budget was amended during the year to meet the needs of growth in the City.

Actual General Fund revenues were \$175,206 above the original budget and \$5,690 below the final adjusted budget. Actual General Fund expenses before transfers were \$22,085 above the original budget and \$11,030 above the final adjusted budget.

ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of Kamas City's finances and to demonstrate the City's accountability for the money it receives.

Questions concerning any of the information provided in this report or any other matters related to the City's finances should be addressed to Kamas City Recorder, 170 North Main, Kamas City, Utah 84036.

KAMAS CITY
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Cash and cash equivalents	\$ 51,671	\$ 701,695	\$ 753,366
Restricted cash	57,631	419,614	477,245
Accounts receivable	8,864	39,884	48,748
Due from other governmental units	234,927	-	234,927
Prepaid expenses	9,262	-	9,262
Capital assets (net of accumulated depreciation):			
Land	105,519	70,196	175,715
Buildings	218,334	-	218,334
Improvements	124,335	3,997,700	4,122,035
Machinery and equipment	143,720	80,841	224,561
Water stock	-	281,343	281,343
TOTAL ASSETS	954,263	5,591,273	6,545,536
LIABILITIES			
Accounts payable	8,721	-	8,721
Deposits	5,000	20,000	25,000
Deferred revenue	171,000	-	171,000
Non-current liabilities:			
Due within one year	19,274	84,638	103,912
Due in more than one year	164,880	1,262,128	1,427,008
TOTAL LIABILITIES	368,875	1,366,766	1,735,641
NET ASSETS			
Invested in capital assets, net of related debt	438,294	3,083,314	3,521,608
Restricted for:			
Capital projects	90,000	-	90,000
Parks	31,011	-	31,011
Road impact	9,500	-	9,500
Debt service	17,120	-	17,120
Water purchases	-	30,643	30,643
Bond reserves	-	138,949	138,949
Impact fees	-	250,023	250,023
Unrestricted	(537)	721,578	721,041
TOTAL NET ASSETS	\$ 585,388	\$ 4,224,507	\$ 4,809,895

The accompanying notes are an integral part of these statements.

KAMAS CITY

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

Net (Expense) Revenue and Changes in Net Assets

	Program Revenues			Primary Government		
	Operating		Capital	Governmental		Business-type
	Charges for	Grants and	Grants and	Activities	Activities	Total
	Expenses	Services	Contributions	Contributions		
FUNCTIONS/PROGRAMS						
PRIMARY GOVERNMENT:						
Governmental activities:						
General government	\$ 284,271	\$ 43,473	\$ -	\$ -	\$ (240,798)	\$ (240,798)
Public safety	158,373	677	2,173	-	(155,523)	(155,523)
Highways and public improvements	147,106	4,875	50,019	-	(92,212)	(92,212)
Parks and recreation	62,536	64,262	47,657	2,064	51,447	51,447
Public works	17,954	-	-	-	(17,954)	(17,954)
Interest on long-term debt	5,434	-	-	-	(5,434)	(5,434)
Total governmental activities	675,674	113,287	99,849	2,064	(460,474)	(460,474)
Business-type activities:						
Water	212,373	260,503	-	23,875	-	72,005
Sewer	162,346	176,065	-	-	13,719	13,719
Total business-type activities	374,719	436,568	-	23,875	85,724	85,724
Total primary government	\$ 1,050,393	\$ 549,855	\$ 99,849	\$ 25,939	(460,474)	(374,750)
General revenues:						
Property taxes					116,107	116,107
Sales taxes					219,655	219,655
Franchise taxes					75,477	75,477
Fees-in-lieu of taxes					30,815	30,815
Miscellaneous					31,462	31,462
Gain on sale of assets					30,000	30,000
Transfers					(20,000)	-
Total general revenues and transfers					483,516	503,516
Change in net assets					23,042	128,766
Net assets - beginning					562,346	4,681,129
Net assets - ending					\$ 585,388	\$ 4,809,895

The accompanying notes are an integral part of these statements.

KAMAS CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ (38,329)	\$ 90,000	\$ 51,671
Restricted cash	57,631	-	57,631
Accounts receivable	8,864	-	8,864
Due from other governmental units	234,927	-	234,927
Prepaid expenses	9,262	-	9,262
Total assets	<u>\$ 272,355</u>	<u>\$ 90,000</u>	<u>\$ 362,355</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 8,721	\$ -	\$ 8,721
Customer deposits	5,000	-	5,000
Deferred revenues	171,000	-	171,000
Total liabilities	<u>184,721</u>	<u>-</u>	<u>184,721</u>
Fund balances:			
Reserved for:			
Parks impact fees	31,011	-	31,011
Road impact fees	9,500	-	9,500
Capital projects	-	90,000	90,000
Debt service	17,120	-	17,120
Unreserved, reported in:			
General fund	<u>30,003</u>	<u>-</u>	<u>30,003</u>
Total fund balances	<u>87,634</u>	<u>90,000</u>	<u>177,634</u>
Total liabilities and fund balances	<u>\$ 272,355</u>	<u>\$ 90,000</u>	<u>\$ 362,355</u>

The accompanying notes are an integral part of these statements.

KAMAS CITY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total fund balances - governmental funds: \$ 177,634

Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported
in the funds.

Land	\$	105,519	
Buildings		324,005	
Improvements		178,854	
Machinery and equipment		334,854	
Accumulated depreciation		<u>(351,324)</u>	
			591,908

Long-term liabilities, including bonds and capital lease payables
are not due and payable in the current period and therefore
are not reported in the governmental funds, but they are
reported in the Statement of Net Assets

Compensated absences	(30,540)		
Bonds payable		(130,000)	
Capital leases payable		<u>(23,614)</u>	
			<u>(184,154)</u>

Net assets of governmental activities	\$	<u>585,388</u>
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The accompanying notes are an integral part of these statements.

KAMAS CITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Capital Projects	Total Governmental Funds
REVENUES			
Taxes	\$ 411,239	\$ -	\$ 411,239
Fees-in-lieu of taxes	30,815	-	30,815
Licenses and permits	26,023	-	26,023
Intergovernmental	54,256	-	54,256
Charges for services	44,610	-	44,610
Fiesta Days	109,097		109,097
Miscellaneous revenue	50,676	-	50,676
Total revenues	<u>726,716</u>	<u>-</u>	<u>726,716</u>
EXPENDITURES			
Current:			
General government	238,206	-	238,206
Public safety	178,575	-	178,575
Highways and public improvements	130,047	-	130,047
Public works	20,273	-	20,273
Parks and recreation	65,253	-	65,253
Fiesta Days	7,438		7,438
Debt service			
Principal	22,710	-	22,710
Interest	5,434	-	5,434
Total expenditures	<u>667,936</u>	<u>-</u>	<u>667,936</u>
Excess (deficiency) of revenues over expenditures	<u>58,780</u>	<u>-</u>	<u>58,780</u>
Other financing sources (uses)			
Capital leases	19,730		19,730
Transfers in	-	30,000	30,000
Transfers out	(50,000)	-	(50,000)
Total other financing sources and uses	<u>(30,270)</u>	<u>30,000</u>	<u>(270)</u>
Net change in fund balances	28,510	30,000	58,510
Fund balances - beginning of year	59,124	60,000	119,124
Fund balances - end of year	<u>\$ 87,634</u>	<u>\$ 90,000</u>	<u>\$ 177,634</u>

The accompanying notes are an integral part of these statements.

KAMAS CITY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2005

Amounts reported for governmental activities in the Statement of
 Activities are different because:

Net changes in fund balances - total governmental funds	\$	58,510
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Governmental funds report capital outlays as expenditures.
 However, in the Statement of Activities the cost of those
 assets is allocated over their estimated useful lives and
 reported as depreciation expense. This is the amount by
 which capital outlays exceeded depreciation in the current
 period.

Improvements	\$	12,443	
Machinery and equipment		29,261	
Depreciation expense		(40,628)	
			1,076

The net effect of transaction involving sale of capital assets is to decrease net assets.		(8,984)
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Some expenses reported in the Statement of Activities do not require use of current financial resources and therefore, are not reported as expenditures in governmental funds - increase in compensated absences.		(30,540)
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Issuance of long-term debt - Capital Lease - provides current financial resources to governmental funds but has no effect on net assets.		(19,730)
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Repayment of the principal of long-term debt consumes the current financial resources of governmental funds but has no effect on net assets		22,710
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Change in net assets of governmental activities	\$	23,042
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The accompanying notes are an integral part of these statements.

KAMAS CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 337,698	\$ 363,997	\$ 701,695
Accounts receivable	24,810	15,074	39,884
Total current assets	<u>362,508</u>	<u>379,071</u>	<u>741,579</u>
Noncurrent assets:			
Restricted cash and cash equivalents	197,069	222,545	419,614
Fixed assets	3,644,781	2,589,700	6,234,481
Less: Accumulated depreciation	<u>(980,882)</u>	<u>(823,519)</u>	<u>(1,804,401)</u>
Total noncurrent assets	<u>2,860,968</u>	<u>1,988,726</u>	<u>4,849,694</u>
Total assets	<u>3,223,476</u>	<u>2,367,797</u>	<u>5,591,273</u>
<u>LIABILITIES</u>			
Current liabilities:			
Revenue bonds payable	52,000	29,000	81,000
Capital leases payable	1,819	1,819	3,638
Deposits	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Total current liabilities	<u>73,819</u>	<u>30,819</u>	<u>104,638</u>
Noncurrent liabilities:			
Bonds payable	1,148,000	110,000	1,258,000
Capital leases payable	<u>2,064</u>	<u>2,064</u>	<u>4,128</u>
Total noncurrent liabilities	<u>1,150,064</u>	<u>112,064</u>	<u>1,262,128</u>
Total liabilities	<u>1,223,883</u>	<u>142,883</u>	<u>1,366,766</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	1,460,016	1,623,298	3,083,314
Restricted - Water purchases	30,643	-	30,643
Restricted - Bond reserves	77,282	61,667	138,949
Restricted - Impact fees	89,145	160,878	250,023
Unrestricted	<u>342,507</u>	<u>379,071</u>	<u>721,578</u>
Total net assets	<u>\$ 1,999,593</u>	<u>\$2,224,914</u>	<u>\$ 4,224,507</u>

The accompanying notes are an integral part of these statements.

KAMAS CITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Water	Sewer	Total
Operating revenues:			
Charges for services	\$ 228,472	\$ 147,131	\$ 375,603
Impact fees	17,600	19,800	37,400
Connection fees	4,000	4,000	8,000
Miscellaneous	4,179	-	4,179
Total operating revenues	<u>254,251</u>	<u>170,931</u>	<u>425,182</u>
Operating expenses:			
Cost of service	93,198	82,231	175,429
Administrative	8,916	7,074	15,990
Maintenance	28,207	14,900	43,107
Depreciation	81,092	55,472	136,564
Total operating expenses	<u>211,413</u>	<u>159,677</u>	<u>371,090</u>
Operating income	<u>42,838</u>	<u>11,254</u>	<u>54,092</u>
Nonoperating revenues (expenses):			
Interest revenue	6,252	5,134	11,386
Interest expense	(960)	(2,669)	(3,629)
Total nonoperating revenues (expenses)	<u>5,292</u>	<u>2,465</u>	<u>7,757</u>
Income before contributions and transfers	48,130	13,719	61,849
Capital contributions	23,875	-	23,875
Transfers in	-	20,000	20,000
Change in net assets	72,005	33,719	105,724
Total net assets - beginning	<u>1,927,588</u>	<u>2,191,195</u>	<u>4,118,783</u>
Total net assets - ending	<u>\$ 1,999,593</u>	<u>\$ 2,224,914</u>	<u>\$ 4,224,507</u>

The accompanying notes are an integral part of these statements.

KAMAS CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Water	Sewer	Total
Cash Flows From Operating Activities			
Receipts from customers	\$ 234,242	\$ 143,385	\$ 377,627
Payments to suppliers	(128,148)	(102,491)	(230,639)
Payments for interfund services used	(4,000)	(4,000)	(8,000)
Receipts for impact fees	17,600	19,800	37,400
Receipts for connection fees	4,000	4,000	8,000
Net cash provided (used) by operating activities	<u>123,694</u>	<u>60,694</u>	<u>184,388</u>
Cash Flows From Noncapital Financing Activities			
Transfers from other funds	-	20,000	20,000
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>20,000</u>	<u>20,000</u>
Cash Flows From Capital and Related Financing Activities			
Capital contributions	23,875	-	23,875
Principal paid on capital debt	(55,877)	(34,877)	(90,754)
Interest paid on capital debt	(960)	(2,669)	(3,629)
Purchases of capital assets	<u>(86,346)</u>	<u>(11,920)</u>	<u>(98,266)</u>
Net cash provided (used) by capital and related financing activities	<u>(119,308)</u>	<u>(49,466)</u>	<u>(168,774)</u>
Cash Flows From Investing Activities			
Interest and dividends received	<u>6,252</u>	<u>5,134</u>	<u>11,386</u>
Net cash provided (used) by investing activities	<u>6,252</u>	<u>5,134</u>	<u>11,386</u>
Net increase (decrease) in cash and cash equivalents	10,638	36,362	47,000
Cash and cash equivalents, July 1	<u>524,129</u>	<u>550,180</u>	<u>1,074,309</u>
Cash and cash equivalents, June 30	<u><u>\$ 534,767</u></u>	<u><u>\$ 586,542</u></u>	<u><u>\$ 1,121,309</u></u>

The accompanying notes are an integral part of these statements.

KAMAS CITY
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income	\$ 42,838	\$ 11,254	\$ 54,092
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	81,092	55,472	136,564
(Increase) decrease in accounts receivable	1,591	(3,746)	(2,155)
Increase (decrease) in accounts payable	(1,827)	(2,286)	(4,113)
Total adjustments	80,856	49,440	130,296
Net cash provided (used) by operating activities	<u>\$ 123,694</u>	<u>\$ 60,694</u>	<u>\$ 184,388</u>

The accompanying notes are an integral part of these statements.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Kamas City, Utah conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The City has adopted the provisions of the Governmental Accounting Standards Board (GASB). Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

The following is a summary of the more significant policies and is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

A. Reporting Entity

Kamas City was incorporated in the State of Utah. The City operates under a Council/Mayor form of government and provides the following services as authorized by its charter: Public safety (police and fire), public utilities (sewer and water), highways and streets, social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The criteria set forth by generally accepted accounting principles (GAAP) was used to determine which entities to include in this report. GASB Concepts Statement-1 (Objectives of Financial Reporting) concludes that the basic foundation for governmental financial reporting is accountability. The Concepts Statement asserts that accountability requires governments to answer to the citizenry - to justify the raising of public resources and the purposes for which they are used. In turn, the concept of accountability becomes the basis for defining the financial reporting entity. Under GASB-14 (The Financial Reporting Entity) the financial reporting entity consists of the following:

1. The primary government
2. Organizations for which the primary government is financially accountable
3. Other organizations that, because of the nature and significance of their relationship with the primary government, exclusion from the reporting entity would render the financial statements misleading or incomplete.

Blended component units, although legally separate entities, are in substance part of the government's operations. They are reported as part of the primary government and blended with the appropriate funds. The City has the following blended component unit.

Kamas City Municipal Building Authority. The Kamas City Municipal Building Authority's governing board is appointed by the government's governing body. The City created a building authority in the form of a non-profit corporation under the Utah Municipal Building Authority Act for the purpose of acquiring, improving, or extending one or more projects, as defined in the Act, and to finance their costs on behalf of the City in accordance with the procedures and subject to limitations of the Act. There was no activity in the current year.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements

The City's basic financial statements consist of both government-wide statements and fund statements. The government-wide statements focus on the City as a whole, while the fund statements focus on individual funds.

Government-wide Financial Statements

The government-wide statements present information on all non-fiduciary activities of the primary government. Primary government activities are distinguished between *governmental* and *business-type* activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The *Statement of Net Assets* presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed upon them are either externally imposed or are imposed by constitutional provisions or enabling legislation. The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. The City does not allocate general government (indirect) expenses to other functions. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements

The financial transactions of the City are recorded in individual funds. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Statements are provided for *governmental funds* and for *proprietary funds*. For governmental and proprietary funds, the emphasis is on *major funds*, with each displayed in a separate column.

The City reports the following major governmental funds:

General Fund - This fund is the principal operating fund of the City. It is used to account for all financial resources not required to be accounted for in another fund.

Capital Projects Fund - This fund accounts for financial resources to be used for the construction of major capital projects.

The City reports the following major proprietary funds:

Sewer Fund - The sewer fund is used to account for operations of the sewer system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-wide and Fund Financial Statements (Continued)

Water Fund - The water fund is used to account for operations of the water system, (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Taxes and fees are recognized in the year in which the related sales or other activity has occurred. Grants and similar items are recognized as revenue when all eligibility requirements have been met.

The governmental fund financial statements are prepared and reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Expenditures are generally recorded when the related liability is incurred.

Proprietary funds separate operating and non-operating revenues and expenses. Operating revenues and expenses normally arise from providing goods and services in connection with the fund's normal ongoing operations. The principal sources of operating revenues for the proprietary funds are charges to customers for goods and services. Operating expenses include the cost of sales and services, administrative overhead expenses and depreciation on capital assets. All other revenues or expenses are recorded as non-operating.

The City has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. Accordingly, the City has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Consequently, the City does not apply FASB pronouncements issued after November 30, 1989.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments to the General Fund by various enterprise funds for providing administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Assets, Liabilities, and Fund Balances/Net Assets

The following are the City's significant policies regarding recognition and reporting of certain assets, liabilities, and equity.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Fund Balances/Net Assets (Continued)

Pooled Cash and Temporary Investments

Unrestricted and restricted cash balances of both funds are combined to form a pool of cash which is managed by the City Treasurer. Utah State Statutes allow for investments in the Utah Public Treasurer's Investment Fund and Utah Money Management Act (UMMA) approved financial institutions. The UMMA provides for a committee to evaluate financial institutions and provide a list of those qualified as depositories for public funds, including the amount they are authorized to maintain over and above insured amounts. The City Treasurer invests unrestricted and restricted cash with the Utah Public Treasurer's Investment Fund and with local financial institutions. Investments in the pooled cash fund consist primarily of certificates of deposit, repurchase agreements, and time deposits and are carried at cost which approximates market value. Interest income earned as a result of pooling is distributed to the appropriate funds based on month end balances of cash. The City considers all highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

Inventories

No significant inventories are maintained by the City, therefore none are reflected in these statements.

Restricted Assets

Certain resources set aside as reserves in accordance with council resolutions and State statutes are classified as restricted assets on the balance sheet because their use is limited.

Capital Assets

General capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds. Capital assets are reported in the governmental column in the government-wide financial statements. All purchased fixed assets are valued at cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Capital assets are defined as assets with an initial, individual cost of more than \$5,000.

Infrastructure capital assets which are newly constructed are capitalized.

Depreciation of all exhaustible capital assets is charged as an expense in the related program. Accumulated depreciation is reported on the Statement of Net Assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	30-50 years	Equipment	5-10 years
Improvements	10-50 years	Infrastructure	25-40 years

Long-term Obligations

In the government-wide statements, long-term debt obligations are reported as liabilities.

The face amount of debt issued is reported as other financing sources in the governmental fund financial statements.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Fund Balances/Net Assets (Continued)

Net Assets/Fund Balances

The difference between assets and liabilities is *net assets* on the government-wide statements, and *fund balance* on the governmental fund statements.

In the governmental fund statements, fund balances are classified as reserved or unreserved. Reserves represent those portions of fund balance that are not available for expenditures or are legally segregated for a specific future use. Unreserved fund balances are available for future appropriation, though some portions may be designated to represent management's tentative plans for specific future uses.

E. Revenues and Expenditures

The following are the City's significant policies related to recognition and reporting of certain revenues, expenditures, and interfund activity.

Revenue Availability

Under the modified accrual basis of accounting, revenues are considered to be "available" when they are collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available if they are collected within 60 days after the end of the current year. Grants and similar items are recognized as revenue when all eligibility requirements have been met. All other revenues, including sales taxes, are considered to be available if they are collected within 60 days after year-end.

Statement of Governmental Accounting Standards (SGAS) No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, defines a non-exchange transaction as one in which "a government either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange." For property taxes, at January 1 of each year (the assessment date), the City has the legal right to collect the taxes, and in accordance with the provisions of the new statement, has now recorded a receivable and a corresponding deferred revenue for the assessed amount of those property taxes as of January 1, 2005.

Expenditure Recognition

In governmental funds, expenditures are generally recorded when the related liability is incurred. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. Capital asset acquisitions are reported as expenditures, and proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the City generally uses restricted resources first, then unrestricted resources.

F. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for both the general fund and capital projects fund. All annual appropriations lapse at the fiscal year end. Encumbrance accounting is not used by the City.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgets and Budgetary Accounting (Continued)

Summary of City Budget Procedures and Calendar

1. The City Council can amend the budget to any extent, provided the budgeted expenditures do not exceed budgeted revenues and appropriated fund balance.
2. Budgets are required by the State of Utah for both the General and Capital Project Funds.
3. Each year the City publishes a separate budget document prepared according to this legal level of control.
4. The City's budget is a Financial Plan of all estimated revenues and all appropriations for expenditures. Revenues and Expenditures must balance for the funds required by the State Code as indicated in item 2 above.
5. A tentative budget is presented by the Mayor to the City Council by the first regularly scheduled council meeting in May. The tentative budget is reviewed and tentatively adopted by the Council no later than June 22.
6. The tentative budget is a public record and is available for inspection at the City offices for at least ten days prior to adoption of the final budget.
7. Notice of public hearing on adoption of the final budget is published seven days prior to the public hearing.
8. The public hearing on the tentatively adopted budget is held no later than June 22. Final adjustments are made to the tentative budget by the Council after the public hearing.
9. Occasionally the City Council will exercise their option to open the budget to indicate additional financing sources that become available.
10. The final budget is adopted by ordinance before June 22 and a copy of the budget certified by the Budget Officer is filed with the State Auditor within thirty days of adoption.
11. In connection with budget adoption:
 - a. An annual tax ordinance establishing the property tax rate is adopted before June 22.
 - b. The City Treasurer is to certify the property tax rate to the County Auditor before June 22.
12. Budgets for the General and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Summary of Action Required for Budget Changes:

The Council may, by resolution, transfer unexpended appropriations from one department to another department within the same fund. The budget appropriation for any department may be reduced by resolution.

Fund budgets may be increased by resolution after a public hearing.

Current Year Excess of Expenditures Over Appropriations:

For the year ended June 30, 2005, expenditures exceeded appropriations in the General Fund by \$11,030.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Contributions

Certain proprietary fund types receive contributions for aid in construction from various sources. With the adoption of GASB No. 33, these contributions that were formerly credited directly to contributed capital accounts are now reflected as non-operating revenue.

H. Compensated Absences

City policy provides for vested or accumulated vacation and sick leave. The balance at June 30, 2005, was \$30,540.

I. Use of Estimates

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Restrictive Resources

The City's policy is to use restricted resources first to fund appropriations when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

The City's deposits are carried at cost.

At June 30, 2005, the carrying amount of the City's deposits was \$339,452 and the bank balance was \$408,565. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining \$308,565 balance was uninsured and uncollateralized.

B. Investments

At year-end investments consist of funds in the Utah State Treasurers Investment Fund. This investment is administered by the State of Utah and is regulated by the Money Management Council under provisions of the Utah State Money Management Act. The investment is not categorized as to credit risk because it does not represent a security that exists in physical or book entry form. Investments are carried at cost which approximates their fair value.

Investments not subject to categorizations:

	Carrying Amount	Market Value
Utah Public Treasurer's Investment Fund	\$ 891,159	\$ 891,296

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

C. Summary

	Carrying Amount
Deposits	\$ 339,452
Investment in State Treasurer's Investment Fund	891,159
Total deposits and investments	<u>\$ 1,230,611</u>
Equity in pooled cash and investments	\$ 753,366
Restricted cash - water fund	197,069
Restricted cash - sewer fund	222,545
Restricted cash - general fund	57,631
Total deposits and investments	<u>\$ 1,230,611</u>

Interest rate risk. The City manages its exposure to declines in fair value by only investing in the Utah Public Treasurers Investment Fund.

Credit risk. As of June 30, 2005, the Utah Public Treasurer's Investment Fund was unrated.

Concentration of credit risk. The City's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2005, \$308,565 of the \$408,565 balance of deposits was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005, was as follows:

	Balance June 30, 2004 As Restated	Additions	(Deletions)	Balance June 30, 2005
PRIMARY GOVERNMENT				
GOVERNMENTAL ACTIVITIES				
Nondepreciated Assets				
Land	\$ 105,519	\$ -	\$ -	\$ 105,519
Total nondepreciated assets	105,519	-	-	105,519
Depreciated Assets				
Improvements-nonbuilding	173,011	5,843	-	178,854
Machinery and equipment	320,452	35,861	(21,459)	334,854
Buildings	324,005	-	-	324,005
Total depreciated assets	817,468	41,704	(21,459)	837,713
Less accumulated depreciation				
Buildings	(97,585)	(8,086)	-	(105,671)
Machinery and equipment	(180,409)	(23,200)	12,475	(191,134)
Improvements	(45,177)	(9,342)	-	(54,519)
Total	(323,171)	(40,628)	12,475	(351,324)
Net assets depreciated	494,297	1,076	(8,984)	486,389
Governmental activities capital assets, net	\$ 599,816	\$ 1,076	\$ (8,984)	\$ 591,908
BUSINESS-TYPE ACTIVITIES				
Nondepreciated Assets				
Land	\$ 70,196	\$ -	\$ -	\$ 70,196
Water stock	280,953	390	-	281,343
Total nondepreciated assets	351,149	390	-	351,539
Depreciated Assets				
Improvements-nonbuilding				
Water system	3,131,187	71,491	-	3,202,678
Sewer system	2,476,047	-	-	2,476,047
Equipment				
Water system	107,985	14,465	-	122,450
Sewer system	69,847	11,920	-	81,767
Total depreciated assets	5,785,066	97,876	-	5,882,942
Less accumulated depreciation				
Improvements-nonbuilding				
Water system	(828,232)	(73,555)	-	(901,787)
Sewer system	(730,356)	(48,882)	-	(779,238)
Equipment				
Water system	(71,558)	(7,537)	-	(79,095)
Sewer system	(37,691)	(6,590)	-	(44,281)
Total	(1,667,837)	(136,564)	-	(1,804,401)
Net assets depreciated	4,117,229	(38,688)	-	4,078,541
Business-type activities capital assets, net	\$ 4,468,378	\$ (38,298)	\$ -	\$ 4,430,080

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 3 - CAPITAL ASSETS (CONTINUED)

DEPRECIATION EXPENSE

	Governmental Types	Business Types	Totals
General government	\$ 8,086	\$ -	\$ 8,086
Highways and public improvements	17,059	-	17,059
Parks	9,727	-	9,727
Public safety	5,756	-	5,756
Sewer	-	55,472	55,472
Water	-	81,092	81,092
TOTAL	<u>\$ 40,628</u>	<u>\$ 136,564</u>	<u>\$ 177,192</u>

NOTE 4 - REVENUE BOND RESERVES

Sewer Revenue Bonds

The required bond reserve account balances at June 30, 2005, were as follows:

1969 Sewer revenue bond	
Bond reserve fund	\$ 9,000
Emergency repair fund	5,000
	<u>\$ 14,000</u>

In addition, both revenue bond ordinances require sufficient revenue be set aside to pay principal and interest on these bonds as they become due.

1989 Sewer revenue bond	
Bond redemption account	\$ 14,667
Bond reserve fund	22,000
Repair and replacement	11,000
	<u>\$ 47,667</u>

This bond ordinance requires monthly amounts to be set aside as follows:

Sewer Revenue Bond Redemption Account

Beginning in November 1989 and continuing each month, the City is required to reserve one-twelfth (1/12) of the annual principal payment due on the sewer revenue bond. The reserve is then used to make the annual payment.

Sewer Revenue Bond Reserve Account

Beginning in November 1989 and continuing each month, the City is required to reserve \$306 per month until such time as the aggregate reserve shall equal \$22,000. The reserve shall be used to fund the sewer revenue bond redemption fund in the event it is in a deficit position.

Emergency Repair and Replacement Account

Beginning in November 1989 and continuing each month, the City is required to reserve \$153 per month until such time as the aggregate reserve equals \$11,000. The reserve shall be used to make such emergency repairs of, or replacements to the system to insure its continued operation.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 4 - REVENUE BOND RESERVES (CONTINUED)

Water Revenue Bonds

The required bond reserve account balances at June 30, 2005, were as follows:

1994 Water Revenue Bond	
Bond redemption account	\$ 26,000
Bond reserve fund	<u>51,282</u>
	<u>\$ 77,282</u>

This bond ordinance requires monthly amounts to be set aside as follows:

Water Revenue Bond Redemption Account

Beginning in January 1, 1995 and continuing each month, the City is required to reserve one-twelfth (1/12) of the annual principal payment due on the water revenue bond. The reserve is then used to make the annual payment.

Water Revenue Bond Reserve Account

Beginning in January 1, 1995 and continuing each month, the City is required to reserve \$407 per month until such time as the aggregate reserve shall equal \$88,000. The reserve shall be used to fund the water revenue bond redemption fund in the event it is in a deficit position.

NOTE 5 - RESERVATIONS/RESTRICTIONS OF FUND BALANCE/RETAINED EARNINGS

Reserved for Park Impact Fees - This represents park impact fees collected and restricted for park improvements.

Reserved for Road Impact Fees - This represents road impact fees collected and restricted for road improvements.

Reserved for Capital Projects - The City is setting aside funds in a reserve for major capital improvements.

Reserved for Debt Service - This represents required reserve accounts set up under bond ordinances.

Restricted for Water Purchases - This represents funds set aside for water share purchases.

Restricted for Bond Reserves - This represents required reserve accounts set up under bond ordinances.

Restricted for Impact Fees - This represents sewer and water impact fees restricted for sewer and water improvements.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 6 - LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2005, was as follows:

Description	Interest Rate	Outstanding 6/30/2004	Additions	Payments	Outstanding 6/30/2005	Current Portion
BUSINESS TYPE						
Sewer utility fund:						
Lease-purchase agreements	5.61-13.47%	\$ 8,761	\$ -	\$ 4,878	\$ 3,883	\$ 1,819
1969 \$130,000 sewer revenue bond	4.74%	37,000	-	8,000	29,000	7,000
1989 \$428,000 sewer revenue bond	N/A	132,000	-	22,000	110,000	22,000
Total sewer utility		<u>\$ 177,761</u>	<u>\$ -</u>	<u>\$ 34,878</u>	<u>\$ 142,883</u>	<u>\$ 30,819</u>
Water utility fund:						
Lease-purchase agreements	5.61-13.47%	\$ 8,761	\$ -	\$ 4,878	\$ 3,883	\$ 1,819
1994 \$1,544,000 water revenue bond	N/A	1,251,000	-	51,000	1,200,000	52,000
Total water utility		<u>\$ 1,259,761</u>	<u>\$ -</u>	<u>\$ 55,878</u>	<u>\$ 1,203,883</u>	<u>\$ 53,819</u>
GOVERNMENTAL ACTIVITIES						
Compensated absences		\$ -	\$ 30,540	\$ -	\$ 30,540	\$ -
Lease revenue bond	3.00%	142,000	-	12,000	130,000	13,000
Lease-purchase agreements	5.61-13.47%	14,594	19,730	10,710	23,614	6,274
		<u>\$ 156,594</u>	<u>\$ 50,270</u>	<u>\$ 22,710</u>	<u>\$ 184,154</u>	<u>\$ 19,274</u>

Annual requirements to amortize long-term debt as of June 30, 2005 - Revenue Bonds:

Sewer utility fund:

June 30,	1969 Sewer Revenue Bond		1989 Sewer Revenue Bond
	Principal	Interest	Principal*
2006	\$ 7,000	\$ 1,378	\$ 22,000
2007	6,000	1,045	22,000
2008	7,000	760	22,000
2009	9,000	427	22,000
Thereafter	-	-	22,000
	<u>\$ 29,000</u>	<u>\$ 3,610</u>	<u>\$ 110,000</u>

* Interest is not applicable for the 1989 sewer revenue bond.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Water utility fund:

June 30,	1994 Water Revenue Bond Principal*
2006	\$ 52,000
2007	54,000
2008	56,000
2009	58,000
2010	59,000
2011	61,000
2012	63,000
2013	65,000
2014	67,000
2015	79,000
2016	80,000
2017	82,000
2018	84,000
2019	86,000
2020	88,000
2021	166,000
	<u>\$ 1,200,000</u>

* Interest is not applicable for the 1994 water revenue bond.

Lease Revenue Bond Payable - Community Impact Fund Board

On February 4, 1993, the Permanent Community Impact Fund Board authorized a \$250,000 loan to the Kamas City Municipal Building Authority for the construction of a city administration building. The loan is evidenced by a lease-revenue bond. The bond shall mature in twenty principal installments payable on January 1st of each year commencing on January 1, 1995. In addition, the bond requires annual payments of interest on the unpaid principal balance at the rate of three percent (3%) per annum. The bond also requires the issuer to establish and maintain a debt service reserve fund in an amount equal to the maximum annual debt service on the bond. The amount required must be contributed to that fund in no more than seventy-two monthly deposits. The balance of the lease-revenue bond outstanding at June 30, 2005, was \$130,000.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Annual requirements to amortize the bond payable as of June 30, 2005, are as follows:

June 30,	Lease Revenue Bond	
	Principal	Interest
2006	\$ 13,000	\$ 3,900
2007	13,000	3,510
2008	14,000	3,120
2009	14,000	2,700
2010	14,000	2,280
2011	15,000	1,860
2012	15,000	1,410
2013	16,000	960
2014	16,000	480
	<u>\$ 130,000</u>	<u>\$ 20,220</u>

The required debt service reserve balance at June 30, 2005, was as follows:

Bond reserve fund	<u>\$ 17,120</u>
-------------------	------------------

Business-type Activities

The City entered into a lease-purchase agreement for the purchase of a City truck for a total cost, including principal and interest, of \$28,111. The terms of the agreement provide for three (3) annual payments of \$7,028, including interest, at 13.47%, beginning on July 24, 2003. The truck is shared by all City departments and the liability is divided in the General Fund and both the Water and Sewer Funds. The balance of this contract to be paid by the Enterprise Funds at June 30, 2005, was \$7,766.

Annual requirements to amortize the lease-purchase agreement as of June 30, 2005, are as follows:

Water Fund:

Year Ended June 30,	Principal	Interest	Total
2006	\$ 1,819	\$ 523	\$ 2,342
2007	2,064	278	2,342
	<u>\$ 3,883</u>	<u>\$ 801</u>	<u>\$ 4,684</u>

Sewer Fund:

Year Ended June 30,	Principal	Interest	Total
2006	\$ 1,819	\$ 523	\$ 2,342
2007	2,064	278	2,342
	<u>\$ 3,883</u>	<u>\$ 801</u>	<u>\$ 4,684</u>

Governmental-type Activities

The City entered into a lease-purchase agreement for the purchase of a City truck for a total cost, including principal and interest, of \$28,845. The terms of the agreement provide for four (4) annual payments of \$7,211, including interest, at 4.75%, beginning on July 14, 2004. The truck is used by the Police Department and the liability has been recorded in the General Fund. The balance of this contract to be provided for in the General Fund at June 30, 2005 was \$19,730.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Annual requirements to amortize the lease-purchase agreement as of June 30, 2005, are as follows:

Year Ended June 30,	Principal	Interest	Total
2006	\$ 6,274	\$ 937	\$ 7,211
2007	6,572	639	7,211
2008	6,884	327	7,211
	<u>\$ 19,730</u>	<u>\$ 1,903</u>	<u>\$ 21,633</u>

The City entered into a lease-purchase agreement for the purchase of a City truck for a total cost, including principal and interest, of \$28,111. The terms of the agreement provide for three (3) annual payments of \$7,028, including interest, at 13.47%, beginning on July 24, 2003. The truck is shared by all City departments and the liability is divided in the General Fund and both the Water and Sewer Funds. The balance of this contract to be provided for in the General Fund at June 30, 2005, was \$3,883.

Annual requirements to amortize the lease-purchase agreement as of June 30, 2005, are as follows

Year Ended June 30,	Principal	Interest	Total
2006	\$ 1,819	\$ 523	\$ 2,342
2007	2,064	278	2,342
	<u>\$ 3,883</u>	<u>\$ 801</u>	<u>\$ 4,684</u>

NOTE 7 - LOCAL GOVERNMENT - COST SHARING

Plan Description. Kamas City contributes to the Local Governmental Noncontributory Retirement System and the Public Safety Noncontributory Retirement System for employers with Social Security coverage, cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated, 1953, as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes general-purpose financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System and the Public Safety Noncontributory Retirement System for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. In the Local Governmental Noncontributory Retirement System, the Kamas City is required to contribute 11.09% of their annual covered salary. In the Public Safety Noncontributory Retirement System for employers with Social Security coverage the, Kamas City is required to contribute 19.08% of their annual salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 7 - LOCAL GOVERNMENT - COST SHARING (CONTINUED)

Kamas City contributes to the Local Governmental Noncontributory Retirement System. The contributions for June 30, 2005, 2004 and 2003, were \$18,105, \$14,714, and \$13,158, respectively and for the Public Safety Retirement System the contributions for June 30, 2005, 2004 and 2003, were \$8,298, \$6,317, and \$5,550, respectively. The contributions were equal to the required contributions for each year.

Kamas City also participates in a defined contribution 401K plan for employees. The contributions were as follows:

	<u>Employee</u>	<u>Employer</u>
2005	\$ 4,810	\$ -
2004	\$ 3,300	\$ -
2003	\$ 6,226	\$ 637

NOTE 8 - POST-EMPLOYMENT BENEFITS

The only post-employment benefit offered by the City is health insurance for eighteen (18) months following termination. Employees covered and eligible are all employees who were covered by the insurance during employment. The participant is required to pay 100% of the premiums. The City is not required to contribute and therefore incurs no expense.

NOTE 9 - RISK MANAGEMENT

Kamas City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The City maintains comprehensive insurance coverage in aggregate amounts sufficient to protect against all reasonably foreseeable liability risks. Specific liability policies purchased include automobile, general liability, property, bond (employee dishonesty), treasurer, public officials and officers, excess liability, and workman's compensation. As of June 30, 2005, there is no anticipation of unpaid claims. Therefore, a liability is not accrued. Settlement amounts have not exceeded coverage for the current year or the three prior years.

NOTE 10 - DEFERRED REVENUE

Deferred revenues are resource inflows that do not yet meet the criteria for revenue recognition. The City follows GASB Statement No.33 which reports property taxes currently receivable to be used in the following fiscal year as deferred revenue.

NOTE 11 - INTEREST EXPENSE

The Proprietary Funds incurred \$3,629 in interest expense of which \$3,629 was charged to expense and \$0 was capitalized.

The General Fund incurred \$5,434 in interest expense of which \$5,434 was charged to expense and \$0 was capitalized.

KAMAS CITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2005

NOTE 12 - INTER-FUND TRANSFERS

During the year ended June 30, 2005, budgeted interfund operating transfers were as follows:

Transfer from general fund	\$ (50,000)
Transfer to capital projects	30,000
Transfer to sewer fund	20,000
	<u> </u>
	<u>\$ -</u>

NOTE 13 - PROPERTY TAX CALENDAR

Lien date	Jan. 1
Taxing entity notifies the county of date, time, and place of public hearing	Mar. 1
Budget officer of the entity prepares and files with the City Council a tentative budget for the next fiscal year	1st scheduled council meeting in May
County auditor sends valuation certified tax rate and levy worksheets to each taxing entity	Jun. 8
Taxing entity must adopt a proposed tax rate, certify the rate and levy, and submit to the county auditor	Before Jun. 22
Taxing entity adopts a final tax rate if there is no increase in certified tax rate	Jun. 22
Taxing entity adopts final budget if there is no increase in certified tax rate	Jun. 22
Copy of the budget is submitted to state auditor within 30 days of adoption	
Payment and delinquency date	Nov. 30

KAMAS CITY
REQUIRED SUPPLEMENTAL
INFORMATION

JUNE 30, 2005

KAMAS CITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES TO FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
<u>Revenues</u>				
Taxes:				
Property taxes	\$ 107,000	\$ 118,000	\$ 108,683	\$ (9,317)
Redemptions	12,500	6,000	7,424	1,424
Sales tax	180,000	207,000	219,655	12,655
Franchise tax	50,000	74,000	75,477	1,477
Total taxes	349,500	405,000	411,239	6,239
Fees-in-lieu taxes	33,500	33,500	30,815	(2,685)
Licenses and permits:				
Business licenses & permits	3,600	4,150	4,150	-
Building permits	15,450	21,000	21,873	873
Total licenses and permits	19,050	25,150	26,023	873
Intergovernmental:				
Class "C" roads	66,000	55,732	50,019	(5,713)
State liquor allotment	2,000	2,173	2,173	-
RAP tax	-	2,064	2,064	-
Total intergovernmental	68,000	59,969	54,256	(5,713)
Charges for services:				
Public property rent	18,000	15,900	16,050	150
Road impact fees	6,000	5,500	4,500	(1,000)
Park impact fees	4,500	2,750	2,250	(500)
Road cut fees	-	3,350	375	(2,975)
Park miscellaneous	12,000	600	572	(28)
Miscellaneous	4,060	20,030	20,863	833
Total charges for services	44,560	48,130	44,610	(3,520)

KAMAS CITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Favorable</u> <u>(Unfavorable)</u>
<u>Revenues (Continued)</u>			
Other revenues:			
Sale of assets	\$ -	\$ 8,000	\$ 8,000
Interest earnings	6,900	12,400	12,676
Shop facilities sale	30,000	30,000	30,000
Fiesta Days	-	110,257	109,097
Total other revenues	36,900	160,657	159,773
Total revenues	551,510	732,406	726,716
<u>Expenditures</u>			
Current:			
General government:			
Administrative & Legislative:			
Salaries and benefits	179,051	122,850	125,996
Materials, supplies and services	16,000	41,651	41,845
	195,051	164,501	167,841
Nondepartmental			
Insurance and bonds	-	19,300	19,284
Professional services	-	27,160	25,798
	-	46,460	45,082
General governmental buildings:			
Materials, supplies and services	26,000	25,000	25,283
Total general government	221,051	235,961	238,206
Public safety:			
Law enforcement			
Salaries and benefits	132,700	114,300	117,471
Materials and supplies	-	17,350	16,215
Capital outlay	-	26,942	26,942
	132,700	158,592	160,628
Inspections			
Salaries and benefits	15,000	16,000	17,532
Materials and supplies	-	-	415
	15,000	16,000	17,947
Total public safety	147,700	174,592	178,575

KAMAS CITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Expenditures - Continued				
Highways & public improvements:				
Class "C" roads	\$ 64,000	\$ 61,772	\$ 61,772	\$ -
Salaries and wages	-	41,550	42,772	(1,222)
Materials, supplies and service	120,875	26,829	25,503	1,326
Total highways & public improvements	184,875	130,151	130,047	104
Public works				
Materials and supplies	-	17,700	17,953	(253)
Capital outlay	-	2,320	2,320	-
Total public works	-	20,020	20,273	(253)
Parks and recreation:				
Salaries and benefits	-	41,550	42,772	(1,222)
Materials, supplies and services	55,425	10,075	10,038	37
Capital outlay	-	12,443	12,443	-
Total parks and recreation	55,425	64,068	65,253	(1,185)
Fiesta Days:				
Materials, supplies and services	-	3,970	7,438	(3,468)
Debt service:				
Principal	23,800	22,710	22,710	-
Interest	13,000	5,434	5,434	-
Total debt service:	36,800	28,144	28,144	-
Total expenditures	645,851	656,906	667,936	(11,030)
Excess (deficiency) of revenues over expenditures	(94,341)	75,500	58,780	(16,720)
Other financing sources (uses):				
Capital leases	-	19,730	19,730	-
Operating transfers (out)	(30,000)	(50,000)	(50,000)	-
Total other financing sources (uses)	(30,000)	(30,270)	(30,270)	-

KAMAS CITY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	\$ (124,341)	\$ 45,230	\$ 28,510	\$ (16,720)
Fund balance - beginning of year	<u>59,124</u>	<u>59,124</u>	<u>59,124</u>	<u>-</u>
Fund balance - end of year	<u>\$ (65,217)</u>	<u>\$ 104,354</u>	<u>\$ 87,634</u>	<u>\$ (16,720)</u>

KAMAS CITY
AUDITOR'S REPORTS AND
AUDITOR'S MANAGEMENT LETTER

JUNE 30, 2005

Davis, Chase & Associates, P.C.

Certified Public Accountants

Steven J. Davis, CPA, CFP*, PFS

Tarina Chase, CPA

Ann Singleton, CPA

INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

To the Honorable Mayor and City Council
Kamas City
Kamas, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Kamas City, Utah, for the year ended June 30, 2005, and have issued our report thereon dated September 20, 2005. As part of our audit, we have audited Kamas City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah:

"C" Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)

The City did not receive any nonmajor grants during the year ended June 30, 2005.

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide including:

Public Debt	Truth in Taxation and Property Tax Limitations
Cash Management	Liquor Law Enforcement
Purchasing Requirements	Uniform Building Code Standards
Budgetary Compliance	Impact Fees
"B" & "C" Road Funds	
Other Compliance Issues	

The management of Kamas City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE
PAGE 2

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings and questioned costs. We considered these instances of noncompliance in forming an opinion on compliance, which is expressed in the following paragraph.

In our opinion, Kamas City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

Davis, Chase & Associates

September 20, 2005

KAMAS CITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-STATE LEGAL COMPLIANCE
YEAR ENDED JUNE 30, 2005

1. FUND BALANCE

The unreserved fund balance in the general fund is below the minimum limitation set by state law. Section 10-6-116(4) of the Utah Code Annotated, 1953, as amended indicates that only the fund balance in excess of 5% of total revenues of the general fund may be utilized for budget purposes. The remaining 5% must be maintained as a minimum fund balance.

We recommend the unreserved balance in the general fund be increased in the coming year to exceed the 5%.

Management Response

The City is aware of the minimum fund balance requirement and will include it in their budgeting process.

2. EXCESS OF EXPENDITURES OVER BUDGET BY DEPARTMENT

The City should not incur expenditures in excess of the total appropriation for any department as adopted in the final budget. For the year ended June 30, 2005, the expenditures for several departments exceeded the budget.

We recommend the City review their budget vs. actual expenditures on a regular basis. The City's actual expenditures should not exceed budget appropriations for any department. Budget amendments can be adopted if proper budgetary procedures are followed.

Management Response

The City is aware of these excess expenditures and will monitor the expenditures as compared to the budget and/or budget amendments on a regular basis.

Davis, Chase & Associates, P.C.

Certified Public Accountants

Steven J. Davis, CPA, CFP®, PFS

Tarina Chase, CPA

Ann Singleton, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and City Council
Kamas City
Kamas, Utah

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Kamas City, Utah, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Kamas City, Utah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to the management of Kamas City, Utah, in a separate letter dated September 20, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kamas City, Utah's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE

Page 2

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over the financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to the management of Kamas City, Utah, in a separate letter dated September 20, 2005.

This report is intended for the information of the audit committee, legislative body, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Davis, Chase & Associates

September 20, 2005

Davis, Chase & Associates, P.C.

Certified Public Accountants

Steven J. Davis, CPA, CFP®, PFS

Tarina Chase, CPA

Ann Singleton, CPA

To the Honorable Mayor and City Council
Kamas City
Kamas, Utah

We have recently completed our audit examination for the year ended June 30, 2005. The size of your operation prevents a complete separation of duties. Therefore, we recommend management and the City Council take an active part in reviewing transactions and in authorizing any adjustments to the accounting records. During the course of our audit, we observed a few items we feel require your consideration. They are as follows:

1. **FUND BALANCE**

The unreserved fund balance in the general fund is below the minimum limitation set by state law. Section 10-6-116(4) of the Utah Code Annotated, 1953, as amended indicates that only the fund balance in excess of 5% of total revenues of the general fund may be utilized for budget purposes. The remaining 5% must be maintained as a minimum fund balance.

We recommend the unreserved balance in the general fund be increased in the coming year to exceed the 5%.

Management Response

The City is aware of the minimum fund balance requirement and will include it in their budgeting process.

2. **EXCESS OF EXPENDITURES OVER BUDGET BY DEPARTMENT**

The City should not incur expenditures in excess of the total appropriation for any department as adopted in the final budget. For the year ended June 30, 2005, the expenditures for several departments exceeded the budget.

We recommend the City review their budget vs. actual expenditures on a regular basis. The City's actual expenditures should not exceed budget appropriations for any department. Budget amendments can be adopted if proper budgetary procedures are followed.

Management Response

The City is aware of these excess expenditures and will monitor the expenditures as compared to the budget and/or budget amendments on a regular basis.

We appreciate the cooperation and assistance we have received from City personnel during the audit.

Davis, Chase & Associates

September 20, 2005

KAMAS CITY
STATUS OF FISCAL YEAR 2004 FINDINGS
AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2005

1. FUND BALANCE

The unreserved fund balance in the general fund is below the minimum limitation set by state law. Section 10-6-116(4) of the Utah Code Annotated, 1953, as amended indicates that only the fund balance in excess of 5% of total revenues of the general fund may be utilized for budget purposes. The remaining 5% must be maintained as a minimum fund balance.

We recommend the unreserved balance in the general fund be increased in the coming year to exceed the 5%.

Management Response

The City is aware of the minimum fund balance requirement and will include it in their budgeting process.

Status: Partially implemented.

2. EXCESS OF EXPENDITURES OVER BUDGET BY DEPARTMENT

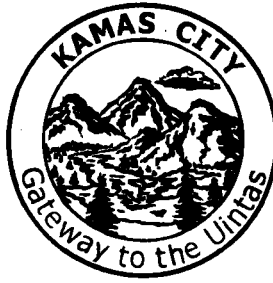
The City should not incur expenditures in excess of the total appropriation for any department as adopted in the final budget. For the year ended June 30, 2004, the expenditures for General Government and Debt Service exceeded the budget.

We recommend the City review their budget vs. actual expenditures on a regular basis. The City's actual expenditures should not exceed budget appropriations for any department. Budget amendments can be adopted if proper budgetary procedures are followed.

Management Response

The City is aware of these excess expenditures and will monitor the expenditures as compared to the budget and/or budget amendments on a regular basis.

Status: Partially implemented.



170 North Main
Kamas, UT 84036
(435) 783-4630 Fax (435) 783-6209

February 20, 2006

MacRay A. Curtis, CPA
Director, Local Government Division
Office of the State Auditor
Utah State Capitol Complex
P.O. Box 142310
Salt Lake City, Utah 84114-2310

Dear Director Curtis,

We received your letter dated February 13, 2005 notifying Kamas City that we were in non compliance regarding fund balance limitations. We have reviewed our budget and are currently working on amendments that will lower anticipated expenses.

If you have any further questions about our corrective action plan, please feel free to contact me personally or Kim Peacock, our city recorder. You are also welcome to contact Steve Davis, our city auditor, if you need any additional information.

We appreciate your understanding as we work to be in compliance with State regulations.

Sincerely,

Lewis P. Marchant, Mayor